Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

By: TMX Group Limited

Recommendations:

- **Recommendation 1: Ensure fair treatment of all Canadian growth companies, public and private, in any new growth support programs.**

- **Recommendation 2: Expand the use of flow-through shares to spur private sector investment in Cleantech and renewable energy.**

- **Recommendation 3: Explore the use of Income Trusts to revive investment and drive positive change in Canada's oil and gas sector.**

- **Recommendation 4: Encourage the Bank of Canada to participate in CDCC repo clearing service to improve stability and increase liquidity of the system.**

- **Recommendation 5: Launch a National Burden Reduction Taskforce to address regulatory barriers for both investors and issuers.**

Recommendations:

The Government of Canada's direct investment in the health, safety, and economic well-being of Canadians in response to COVID-19 has been both historic and necessary. However, few would argue that current government expenditure levels are sustainable and, as such, Canada needs a plan to leverage the private sector for our economic recovery.

In addition to existing short-term stimulus spending, Canada's long-term recovery requires job creation through the establishment of new companies and the growth of existing Canadian firms.

Recommendation 1: Ensure fair treatment of all Canadian growth companies, public and private, in any new growth support programs.

Nearly seventy percent of publicly traded companies in Canada are small and medium sized enterprises (SMEs), yet they face significant disadvantages relative to their privately-held peers just by virtue of being publicly listed. In recognition of this reality, TMX is seeking equal treatment for all growth-stage Canadian companies, regardless of their equity ownership model.

The public markets have played a critical role in growing many of Canada's most important companies that power our economy. Indeed, 20% of the S&P / TSX Composite are graduates of the TSX Venture Exchange.

Public markets also represent the democratization of growth capital by allowing a wider group of Canadians to participate in wealth creation through economic growth. When public growth companies are treated fairly, the benefits accrue not only in job creation and business growth, but also in allowing everyday Canadians to benefit from that wealth creation.

TMX was pleased to see the Canadian government expand the Canada Emergency Wage Subsidy (CEWS) to include public companies, and we believe that any further support measures targeted at SMEs rolled-out in the wake of COVID-19 and beyond should maintain this approach. This includes resisting the tendency to use status as a "Canadian-controlled private corporation" (CCPC) as a stand-in for SMEs in determining qualifying criteria for support programs.

Market capitalization and/or enterprise value, combined with number of employees (the metric most commonly used by StatsCan) are much more appropriate criteria for determining whether a company is an SME and should be eligible for support. Any new government support programs targeted at growth-stage companies should consider these criteria when determining the definition of eligible companies.

Only through fair and equal treatment of public companies and those wishing to become publicly traded will the government maximize the unique potential of Canada's public capital markets to help our economy recover quickly.

Recommendation 2: Expand the use of flow-through shares to spur private sector investment in Cleantech and renewable energy.

TMX is proud to be the world's leading marketplace for mining and exploration companies to raise growth capital. Canada's global pre-eminence in this space is something for all Canadians to be proud of, but it did not happen by accident. Flow-through shares are an existing, proven, made-in-Canada investment tool that incentivize investment dollars towards a specific purpose, and can be at least partially credited for spurring Canada's global dominance in mining and exploration financing activity over the past decade. As we build the economy of the future and look for solutions to meeting Canada's climate commitments, flow-through shares can be an integral tool in building-up and attracting investment to new industries.

In early 2020 TMX supported an industry-led campaign calling for the introduction of flow-through shares for the Canadian clean technology ("Cleantech") industry. Canada's flow-through shares program is an established structure that helps attract private investment for funding specific, designated activities. We propose that as part of Canada's economic recovery plan, the permitted use of flow-through shares be expanded to include projects in the cleantech and renewable energy space.

New clean technologies are our best chance for meeting Canada's climate action objectives. Using flow-through shares to attract capital for the development and commercial deployment of these technologies is our best chance for turning cleantech ideas into viable solutions. There would be numerous benefits of expanding flow-through shares to include cleantech projects, including helping accelerate Canada's clean energy transition, helping Canada meet its climate change targets, creating jobs without necessitating massive new government expenditures, and allowing Canadians to directly invest in the clean technology solutions of the future.

Canada has established itself as a global center of excellence in clean technology and renewable energy. This includes a leading stock list of issuers in the space and builds upon our financial expertise in energy and materials. We believe that further fostering the public markets around Cleantech will combine with other federal entities like Sustainable Development Technology Canada (SDTC) to further establish Canada as a leading global hub for Cleantech investment.

Recommendation 3: Explore the use of Income Trusts to revive investment and drive positive change in Canada's oil and gas sector.

The oil and gas (O&G) sector – which has been a significant driver of economic growth in Canada – faces an existential crisis. While we believe in the importance of a transition to a clean energy future powered by Canada's cleantech and renewable energy sectors we also believe it is imperative that the O&G sector receive the proper tools and support to allow it to continue to be leaders in this transition.

The Canadian government can help the O&G sector in attracting capital and liquidity with the re-introduction of the Income Trust Structure This would not only allow the sector to access the capital

it needs to responsibly develop the energy upon which we rely, but also to continue to invest in further reducing emissions and driving innovation in the transition to a lower carbon economy

First introduced in the mid-1980s when the combination of low oil prices and a lack of capital created the need, Income Trusts helped to power the burgeoning Canadian O&G sector into a mature income producing machine. Income trusts provide an incentive for companies to reinvest in growing their businesses. By flowing profits directly to unitholders, they also allow Canadian investors an opportunity to participate more directly in the success of Canadian firms. During peak years, there were over 250 Income Trusts listed on Canadian markets, providing Canadian investors with a greater investable universe of profitable companies that were flowing benefits back to the public unitholders - where taxes were ultimately collected.

We believe a re-introduced and revamped Income Trust structure could help ensure that Canada's O&G industry remains strong and creates the foundations for it to be able to transition to a lower carbon economy. As part of the requirements of a revised Income Trust structure companies could be mandated to devote a certain percentage of earnings towards green/clean-tech innovation and R&D, provide ESG disclosure aligned with SASB and TCFD standards, TMX has convened a working group of industry experts to explore the idea of amending the Income Tax Act to allow for the use of O&G Trusts, and would also be pleased to meet with government representatives to further discuss the proposal.

Recommendation 4: Encourage the Bank of Canada to participate in CDCC repo clearing service to improve stability and increase liquidity of the system.

The Canadian Derivatives Clearing Corp. (CDCC), part of TMX Group, provides central clearing counterparty (CCP) services for all exchange-traded derivatives products in Canada. Since 2012, CDCC has also provided CCP services for the Canadian repurchase agreement market ("the repo clearing service").

Created by CDCC in response to government and industry demand, the repo clearing service was an industry-led initiative reflecting input from the Bank of Canada(BoC) and other industry players, with the main rationale being increased market stability in the wake of the 2008 financial crisis.

To effectively mitigate systemic credit risk, cleared volumes should represent a substantial portion of total volumes traded. At present, about 35% of the Canadian outstanding repo market is cleared centrally, as compared to about 50% in comparator jurisdictions like the United Kingdom and Japan. While Canada's cleared repo market has grown rapidly in recent months, (the average daily value of repo transactions cleared by CDCC grew by about 30% between August 2018 and August 2019), additional fluidity, breadth, and depth can be created through further diversification and broadening of CDCC's membership, including through central bank participation.

Simply put, the participation of the BoC in the CCP repo service would dramatically improve the stability of the system as a whole. Central bank participation would have the benefit of adding needed liquidity

to the service, and would also send a message to participants that the repo clearing service does indeed fulfill its primary goals of financial resilience and continuous access.

Situations of extreme market volatility like those experienced during the early weeks of COVID-19 crisis tend to make borrowing conditions tighter and capacity limited. The repo clearing service, in fulfilling its mandate to provide continuously open and fluid markets, is a good alternative to strained bilateral repo market conditions when situations of increased volatility occur.

With this in mind we recommend that the Minister of Finance advocate with the Receiver General and the BoC to participate in CDCC's repo clearing service, and to encourage greater CCP participation in general.

Recommendation #5: Launch a National Burden Reduction Taskforce to address regulatory barriers for both investors and issuers.

Public corporate listings in Canada have been in steady decline over the past 20 years. Moreover, the average size of corporate listings in Canada has grown markedly over the same period. Companies are going public later and larger, or not at all, shutting average Canadian investors out of the associated wealth creation and leaving growing Canadian companies vulnerable to foreign takeover.

While many factors have contributed to this trend, one of the leading contributors -- and likely the one most directly attributable to government action -- has been increased regulatory and administrative burden across Canada. Increased burden has driven increased costs on all businesses -- large and small alike -- and has also made it prohibitive for the smallest companies to access a public listing or leverage financing mechanisms like the public offering system as it exists today.

Several provinces have begun the work of addressing increased regulatory burden and the negative impacts this trend is having on growing Canadian companies. The COVID-19 recovery over the coming years is an excellent opportunity for the Canadian government to implement their own efforts to address this issue. We encourage the federal government to take a leadership role in streamlining administrative costs for public companies in Canada, while also lowering barriers to entry for both domestic and international investors.

We are therefore calling on the federal government to convene a national burden reduction taskforce focussed on lowering barriers to entry for domestic and international investors, including a comprehensive review of Canada's overly complex tax regime, that will also help improve international competitiveness and encourage home-grown success stories.

Conclusion

These recommendations are submitted with the best interests of Canadians at heart. We believe that our economic recovery will be powered by SME growth, which must necessarily include growth-stage public companies. Both in response to the COVID-19 pandemic and more generally we suggest that measures which increase our global competitiveness and a business-friendly environment -- including a stable system free of unnecessary regulation, will be key to Canada's success.